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SPECIAL ANALYSIS E

BORROWING AND DEBT

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The Budget of the United States Government, 1983

Note.—All years referred to are fiscal years, unless otherwise noted. Details in the tables, text, and charts of this booklet may not add to totals because of rounding.

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SPECIAL ANALYSES

A. Current Services Estimates
B. Federal Transactions in the National Income Accounts
C. Funds in the Budget
D. Investment, Operating, and Other Budget Outlays
E. Borrowing and Debt
F. Federal Credit Programs
G. Tax Expenditures
H. Federal Aid to State and Local Governments
I. Civilian Employment in the Executive Branch
J. Civil Rights Activities
K. Research and Development

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SPECIAL ANALYSIS E

BORROWING AND DEBT

The major fiscal operations of the Federal Government include not only taxation and expenditure but also:

- the borrowing of cash to meet current outlays not covered by receipts and to refinance maturing debt;
- the investment of balances that trust funds and other Government accounts do not currently need for outlays; and
- the provision of guarantees and other assistance for certain private borrowing.

This analysis summarizes current developments in Federal borrowing. It also discusses the size and growth of the Federal debt and the interest on the Federal debt, the amount of U.S. Government debt held by foreign residents, agency borrowing, agency investment in Federal securities, the statutory debt limitation, Government-guaranteed borrowing, and borrowing by Government-sponsored enterprises. The analysis concludes with a brief discussion of the trend in Federal and federally assisted borrowing and the relationship of this trend to the total borrowing by the nonfinancial sector of the economy. Excluded from this analysis are other types of Federal liabilities, which include accounts payable, obligations for undelivered orders, long-term contracts, insurance commitments, and the obligation for such future payments as social security and employee retirement.[1]

Special Analysis F, "Federal Credit Programs," [2] examines the related subject of Federal credit programs, which provide direct loans, loan guarantees, and loans by Government-sponsored enterprises. The factors discussed in both Special Analyses E and F are significant in appraising the impact on financial markets of the programs contained in the 1983 Federal budget.

Borrowing and Repaying Debt

The Federal Government sells debt for two principal reasons. First, it sells debt to the public, largely in order to finance the Federal deficit. Second, it sells debt to the Government agencies that accumulate surpluses in separate funds, primarily trust funds,

[1] Information on many of these liabilities is contained in "Statement of Liabilities and Other Financial Commitments of the United States Government," an annual report prepared by the Bureau of Government Financial Operations of the Department of the Treasury.

[2] This publication is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

that are required by law to be invested in Federal securities. Most Federal debt has been issued by the Treasury and is called "public debt," but a small portion has been issued by other Government agencies and is called "agency debt."[3]

Borrowing from the public—whether by the Treasury or by an agency—has a significant impact on financial markets and the rest of the economy, and is consequently an important concern of Federal fiscal policy. Borrowing from the public includes borrowing from the Federal Reserve System as well as borrowing from commercial banks, foreign central banks, other financial institutions and businesses, and individuals. The term "borrowing from the Federal Reserve System" does not imply that the Treasury sells debt securities directly to the Federal Reserve. Instead, the Federal Reserve normally buys securities in the open market. In the past the Federal Reserve was able to buy securities directly from the Treasury only under exceptional circumstances and in amounts limited by statute. The statutory authority for even these exceptions expired in 1981.

For most purposes borrowing from the Federal Reserve System should be distinguished from borrowing from the rest of the public. Federal Reserve purchases of debt are undertaken to carry out monetary policy, not to earn income, and affect the economy by expanding bank reserves and the money stock. They thus have a markedly different motivation and effect on financial markets than do purchases by other sectors of the public. The debt held outside the Federal Reserve System enters into investment portfolios of businesses and individuals and by this means affects interest rates, other financial conditions, and the size and composition of private assets. Almost all interest received by the Federal Reserve System is returned to the Treasury as receipts, called deposits of earnings, so the Federal Reserve holdings of debt have only a small effect on the budget surplus or deficit. The estimates in this analysis for the current and future years do not divide the debt held by the public between the Federal Reserve System and the rest of the public, despite the significance of this distinction, because the Federal Reserve's open market operations depend on future economic developments and on policy decisions not yet made.

Table E-1 summarizes Federal borrowing from 1981 through 1985. In 1981 the total Federal borrowing (net of the refunding of securities)—i.e., the rise in gross Federal debt—was $89.6 billion. The sale of debt to Government agencies was $10.3 billion, and the sale of debt to the public was $79.3 billion. Of the increase in debt held by the public, $3.6 billion was purchased by the Federal Re-

[3] The term "agency debt" is defined more narrowly in the budget than in the securities market, where it may include not only the debt of the Government agencies listed in table E-6 but also certain Government-guaranteed securities and the debt of the Government-sponsored enterprises listed in table E-10.

serve System and $75.7 billion by the rest of the public. As a result of this borrowing, Federal debt held by the public increased to $794.4 billion at the end of 1981. Gross Federal debt reached one trillion dollars on the last day of the fiscal year, with the amount being $1,003.9 billion.

Table E–1 **FEDERAL BORROWING**

(In millions of dollars)

Description	Borrowing or repayment (—) of debt					Debt outstanding, end of year	
	1981 actual	1982 [2] estimate	1983 estimate	1984 estimate	1985 estimate	1983 estimate	1985 estimate
Gross Federal debt:							
Treasury debt	90,153	131,259	124,306	NA	NA	1,253,420	NA
Agency debt	—530	—1,014	—87	NA	NA	4,985	NA
Gross Federal debt	89,623	130,245	124,219	114,373	113,314	1,258,405	1,486,092
Less debt held by Gov. agencies:							
Treasury debt	10,313	15,115	16,230	NA	NA	235,795	NA
Agency debt	—19	—264	—10	NA	NA	1,176	NA
Debt held by Gov. agencies [1]	10,294	14,851	16,220	17,913	31,279	236,971	286,163
Total, debt held by public	79,329	115,394	108,000	96,459	82,036	1,021,434	1,199,929
Composed of:							
Debt held by the Federal Reserve System	3,620	NA	NA	NA	NA	NA	NA
Debt held by others	75,709	NA	NA	NA	NA	NA	NA

NA = Not available.

[1] Agency investment in 1984 and 1985 is estimated as equal to the total trust fund surplus.

[2] Borrowing from the public in 1982 excludes the change in debt held by the public due to the proposed legislation under which the ownership of an estimated $3,606 million of debt would be transferred from the railroad retirement account to a newly created private rail industry pension corporation as of September 30, 1982. Agency investment excludes the corresponding change in debt held by Government agencies.

Borrowing from the public has fluctuated widely in recent years, largely in response to fluctuations in the economy. It rose from $3.0 billion in 1974 to $82.9 billion in 1976 primarily because of the 1974–75 recession and its aftermath, and it declined to $33.6 billion in 1979 as the economy recovered. The rise in borrowing to $70.5 billion in 1980 and $79.3 billion in 1981 was caused in considerable part by economic slowdown and recession.

Borrowing from the public is estimated to increase to $115.4 billion in 1982 and then decline a little to $108.0 billion in 1983. The economic assumptions underlying these estimates are displayed and discussed in Part 2 of the *Budget*. The current recession automatically reduces tax receipts and raises outlays for unemployment benefits and certain other programs; the current decrease in the rate of inflation, which is estimated to continue throughout the projection period, reduces tax receipts more quickly than it reduces outlays. By the end of 1983 gross Federal debt is estimated to be $1,258.4 billion, with $1,021.4 billion or 81% held by the public (including the Federal Reserve System) and the remainder by the

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agencies. Almost all of the gross Federal debt will have been issued by the Treasury.

Borrowing from the public for years beyond the budget year is estimated as part of the Government's multi-year budget planning. As explained in Part 2 of the *Budget*, the economic assumptions underlying the receipts and outlay estimates for 1984 and 1985 are not forecasts of the probable economic conditions in these years, unlike the economic forecast underlying the 1982 and 1983 estimates. Instead, the 1984–85 assumptions are projections consistent with the economic policy objectives of the administration that assume steady progress in reducing unemployment, inflation, and interest rates and in sustaining strong real growth. The receipts and outlay estimates also assume that current tax laws are continued, as modified by the proposals in the budget, and that existing and proposed programs are carried out in 1984 and 1985 at the levels currently planned. Under these assumptions, the total Government deficit continues to decline, and borrowing from the public decreases steadily to $82.0 billion in 1985.

Borrowing and Government Deficits

Table E–2 shows the relationship between borrowing from the public and the Federal deficit. Until several years ago the budget deficit comprised practically the entire deficit of the Federal Government, but the deficit of the off-budget Federal entities is now significant. These entities, such as the Federal Financing Bank and the Postal Service, are parts of the Federal Government but have been excluded from the budget under provisions of law.

The Government deficit is financed either by borrowing from the public or by several other means. The other means of financing are:

- a decrease in cash or other kinds of monetary assets;
- an increase in monetary liabilities for checks outstanding, accrued interest payable to the public, etc.;
- an increase in deposit fund balances, which are discussed on pages 21–22 together with their effect on the means of financing; and
- seigniorage, which is the face value of minted coins less the cost of their production.

All of these other means of financing except seigniorage are changes in Government asset or liability accounts and so may be either positive or negative. In most years they add up to a positive total amount, in which case they finance part of the deficit. Sometimes, however, they add up to a negative total amount, in which case they, like the deficit, must themselves be financed by borrowing from the public. In 1981 the Government borrowed $79.3 billion from the public. Almost all of this amount, $78.9 billion, was used

to finance the Government deficit. The remainder was used to finance the other means of financing, which had a small negative total amount.

Table E–2. **MEANS OF FINANCING THE FEDERAL DEFICIT** [1]

(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate	1984 estimate	1985 estimate
Budget surplus or deficit (–)	–57,932	–98,578	–01,52.	–92,019	–81,993
Deficit (–) of off-budget Federal entities [2]	–21,005	–19,689	–15,701	–14,285	–10,950
Total, surplus or deficit (–)	–78,936	–118,267	–107,221	–978,204	–82,833
Means of financing other than borrowing from the public:					
Decrease or increase (–) in cash and monetary assets	–1,668	3.700			
Increase or decrease (–) in liabilities for:					
Checks outstanding, etc. [3]	–1,301	329	326		
Deposit fund balances [4]	2,125	–1,709	–1,621		
Seigniorage on coins	450	553	516	744	797
Total, means of financing other than borrowing from the public	–393	2,873	–779	744	797
Total, requirements for borrowing from the public	–79,329	–115,394	–108,000	–96,459	–82,036
Transfer of debt holdings [5]		–3,606			
Change in debt held by the public	79,329	119,000	108,000	96,459	82,036

[1] Several amounts have been assumed to be zero during 1983–85 because they are usually small and cannot be estimated accurately.
[2] The off-budget Federal entities consist of the Rural Electrification and Telephone revolving fund, Rural Telephone Bank, Federal Financing Bank, Postal Service fund, one program of the U.S. Railway Association, Synthetic Fuels Corporation, and (beginning in 1982) the Strategic Petroleum Reserve account.
[3] Besides checks outstanding, includes military payment certificates, accrued interest (less unamortized discount) payable on Treasury debt, and, as an offsetting change in assets, certain collections in transit.
[4] Does not include investment in Federal debt classified as debt held by the public.
[5] As of September 30, 1982, $3,606 million of debt held by trust funds are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account are to be transferred to a newly created private rail industry pension corporation.

The other means of financing are normally small relative to borrowing from the public. This is because they are limited by their own nature. Decreases in cash balances, for example, are necessarily limited by past accumulations, which themselves required financing when they were built up. Thus, the extent to which means other than borrowing can finance a deficit are limited in any 1 year and are still more limited over a longer period of time. When the total Government deficit is sizable, it is necessarily the principal determinant of borrowing from the public.

The debt estimated to be held by the public at the end of 1982 is increased by $3.6 billion due to proposed legislation that would transfer the ownership of the assets of the railroad retirement account as of September 30, 1982, to a newly created private corporation that was chartered to operate the rail industry pension. The transfer of these debt securities is not defined as constituting an outlay. This transaction therefore does not give rise to any financing requirement, and the transfer is a reclassification of debt hold-

ings rather than a borrowing from the public. The change in debt held by the public during 1982 is consequently $3.6 billion more than the borrowing from the public. Correspondingly, the change in debt held by Government agencies is $3.6 billion less than agency investment. Gross Federal debt is not affected.

The structure of table E–2 demonstrates that, because of the off-budget Federal entities, balancing the budget is not enough to prevent an increase in the Federal debt held by the public. Even if the budget were balanced, the off-budget deficit would have to be financed by borrowing. The budget and the off-budget entities combined must be in balance in order for the Government not to have to borrow from the public (aside from the effects of the other means of financing).

The amount of debt issued to Federal agencies depends largely on the surpluses of the trust funds, which own 90% of the Federal debt held by Government agencies. Agency investment in Federal securities and the total trust fund surplus during 1980–83 are compared in the table below (in billions of dollars):

	1980 actual	*1981 actual*	*1982 estimate*	*1983 estimate*
Agency investment in Federal debt	10.1	10.3	14.9	16.2
Total trust fund surplus	8.8	6.8	12.5	15.4

As the table shows, the agency investment in Federal securities is similar in size to the total trust fund surplus throughout this period. This relationship has historically been close, with the small differences accounted for by two factors. Certain agencies other than trust funds buy or sell Federal debt, as shown in table E–7, and the trust funds may increase or decrease their cash assets not currently invested.[4]

Size and Growth of Federal Debt

Gross Federal debt has risen substantially over the past half century, from $16.9 billion in 1929 to $1,003.9 billion at the end of 1981. Table E–3 compares the trends since 1954 in gross Federal debt and the amounts of debt held by Government accounts, the public (including the Federal Reserve System), and the Federal Reserve System. During this period the gross Federal debt increased nearly four times, with over a fifth of the increase being held in Federal Government accounts (primarily trust funds) rather than being owed to the public. In the quarter century from the end of 1956 to the end of 1981, gross Federal debt increased at an average annual rate of 5.3% and debt held by the public in-

[4] These "open book balances" are small relative to trust fund holdings of Federal debt, as shown in Special Analysis C, "Funds in the Budget."

Table E–3. COMPARISON OF TRENDS IN FEDERAL DEBT AND GROSS NATIONAL PRODUCT

(Dollar amounts in billions)

Fiscal year	Debt outstanding, end of year					GNP	Debt held by public as percent of GNP
	Gross Federal debt	Held by					
		Federal Government accounts	The public				
			Total	Federal Reserve System	Other		
1954	270.8	46.3	224.5	25.0	199.5	364.2	61.6
1955	274.4	47.8	226.6	23.6	203.0	380.6	59.5
1956	272.8	50.5	222.2	23.8	198.5	411.8	54.0
1957	272.4	52.9	219.4	23.0	196.4	433.9	50.7
1958	279.7	53.3	226.4	25.4	200.9	443.1	51.1
1959	287.8	52.8	235.0	26.0	209.0	474.4	49.5
1960	290.9	53.7	237.2	26.5	210.7	497.9	47.6
1961	292.9	54.3	238.6	27.3	211.4	509.3	46.8
1962	303.3	54.9	248.4	29.7	218.7	548.2	45.3
1963	310.8	56.3	254.5	32.0	222.4	578.0	44.0
1964	316.8	59.2	257.6	34.8	222.8	618.2	41.7
1965	323.2	61.5	261.6	39.1	222.5	659.5	39.7
1966	329.5	64.8	264.7	42.2	222.5	724.1	36.6
1967	341.3	73.8	267.5	46.7	220.8	777.3	34.4
1968	369.8	79.1	290.6	52.2	238.4	831.3	35.0
1969 [1]	367.1	87.7	279.5	54.1	225.4	910.6	30.7
1970 [2]	382.6	97.7	284.9	57.7	227.2	968.8	29.4
1971	409.5	105.1	304.3	65.5	238.8	1,031.5	29.5
1972	437.3	113.6	323.8	71.4	252.3	1,128.8	28.7
1973 [3]	468.4	125.4	343.0	75.2	267.9	1,252.0	27.4
1974	486.2	140.2	346.1	80.6	265.4	1,379.4	25.1
1975	544.1	147.2	396.9	85.0	311.9	1,479.9	26.8
1976 [4]	631.9	151.6	480.3	94.7	385.6	1,640.1	29.3
TQ	646.4	148.1	498.3	96.7	401.6	1,723.3	28.9
1977	709.1	157.3	551.8	105.0	446.8	1,864.1	29.6
1978	780.4	169.5	610.9	115.5	495.5	2,083.8	29.3
1979	833.8	189.2	644.6	115.6	529.0	2,353.3	27.4
1980	914.3	199.2	715.1	120.8	594.3	2,567.5	27.9
1981	1,003.9	209.5	794.4	124.5	670.0	2,858.6	27.8
1982 estimate [5]	1,134.2	220.8	913.4	NA	NA	3,082.9	29.6
1983 estimate	1,258.4	237.0	1,021.4	NA	NA	3,433.6	29.7
1984 estimate	1,372.8	254.9	1,117.9	NA	NA	3,791.9	29.5
1985 estimate	1,486.1	286.2	1,199.9	NA	NA	4,163.5	28.8

NA—Not available.

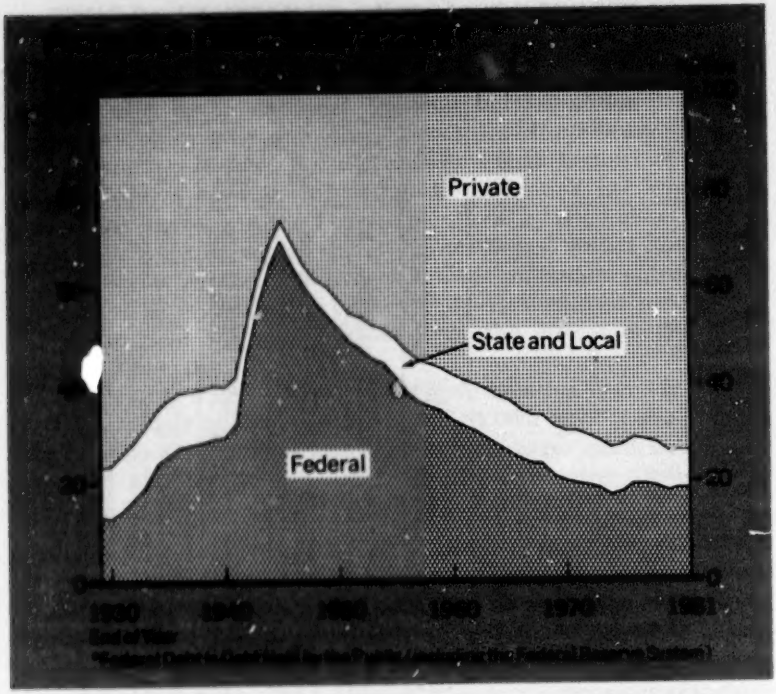
[1] During 1969, 3 Government-sponsored enterprises became completely privately owned, and their debt was removed from the totals for the Federal Government. At the dates of their conversion, gross Federal debt was reduced $10.7 billion, debt held by Government accounts was reduced $0.6 billion, and debt held by the public was reduced $10.1 billion.

[2] Gross Federal debt and debt held by the public increased $1.6 billion due to a reclassification of the Commodity Credit Corporation certificates of interest from loan assets to debt.

[3] A procedural change in the recording of trust fund holdings of Treasury debt at the end of the month increased gross Federal debt and debt held in Government accounts by about $4.5 billion.

[4] Gross Federal debt and debt held by the public increased $0.5 billion due to a retroactive reclassification of the Export-Import Bank certificates of beneficial interest from loan assets to debt.

[5] As of September 30, 1982, $3.6 billion of Federal debt held by Government accounts are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account are to be transferred to a newly created private rail industry pension corporation.



creased at an average annual rate of 5.2%. Federal debt held by the public apart from the Federal Reserve System rose a little more slowly, at an average annual rate of 4.9%, because during this period the Federal Reserve System bought a large quantity of Federal debt in the market, thereby expanding the reserves of the banking system and increasing the Nation's money stock.

During the depression of the 1930's and during World War II, Federal debt held by the public increased greatly, not only in absolute amount but also, as shown in the chart above, as a proportion of the total credit market debt owed by nonfinancial sectors of the economy: Federal, State and local, and private.[5] Whereas Federal debt held by the public was only 13% of total debt at the end of calendar year 1929, it had risen to 70% by the end of calendar year 1945. Federal borrowing was large during these years, particularly to finance World War II, and borrowing by other sectors was restricted by low incomes and poor credit-worthiness during the depression and by controls and scarcities during the war.

[5] The estimates for 1946 to the present are from the Federal Reserve Board flow-of-funds accounts; the estimates for earlier years are from the Bureau of Economic Analysis of the Department of Commerce and are linked to the flow-of-funds estimates on the basis of their respective 1946 levels. The data are for calendar years during 1929–51 and for fiscal years thereafter. The private sector debt includes debt of foreigners.

From 1945 to 1974, however, private debt increased as a proportion of total credit market debt in every single year, and likewise in every year the Federal debt held by the public (including the Federal Reserve System) decreased as a proportion of the total. This uninterrupted trend ended in 1975 because of the large Federal deficit caused by recession. Another large Federal deficit in 1976 caused Federal debt held by the public to rise as a percentage of total debt again in that year, and the 1980–81 recessions led to further increases in the percentage. As a result of these events, Federal debt held by the public remained at about the same percentage of total debt during the past decade. The percentage was 18% at the end of 1981, which is the same as in 1973 and only a little less than the 20% in 1971.

Over a longer period, however, the decrease in the relative importance of Federal debt is unmistakable in comparison with both private debt and State and local government debt. During the years from 1961 to 1981, for example, the average annual rate of growth was 6.1% for Federal debt held by the public, 7.7% for State and local debt, and 10.3% for private debt. As a result of these trends, Federal debt, though still important, is a relatively smaller influence in the financial market than it was twenty or thirty years ago. (As described in the final section of this special analysis, however, the relative influence of the combined total of Federal and federally assisted borrowing has been rising in the last few years.)

During the same period Federal debt has decreased relative to gross national product (GNP). As shown in table E–3, debt held by the public equaled 61.6% of GNP at the end of 1954 but declined steadily to 25.1% by the end of 1974. Since then, however, primarily due to recessions and economic slowdowns, debt held by the public has fluctuated as a percentage of GNP, at the same time as it has fluctuated as a percentage of total credit market debt. As a result, Federal debt held by the public remained at about the same percentage of GNP during the past decade. The percentage was 27.8% at the end of 1981, which is above the levels reached in several years and only slightly less than the 29.5% in 1971. The percentage is estimated to be 29–30% during 1982–85.

The interest cost of the debt may be more significant than the amount of the debt for some types of comparison designed to measure the importance of Federal indebtedness. Interest on the debt held by the public has risen much faster than the debt itself, due to a strong upward trend since World War II in the interest rates that must be paid on new borrowings and on refunded debt. The interest rate on 91-day Treasury bills, for example, averaged 14.1% in calendar year 1981 and 11.5% in calendar year 1980 compared to 6.3% in the 1970's, 4.0% in the 1960's, and 2.0% in the 1950's. Consequently, whereas the Federal debt held by the public increased by almost 4 times between 1954 and 1981, table E–4 shows that the interest paid on this debt increased by 15 times.

Table E–4. **COMPARISON OF TRENDS IN INTEREST ON FEDERAL DEBT**

(Dollar amounts in billions)

Fiscal year	Interest on the gross Federal debt					Interest on debt held by the public as a percent of	
	Total [1]	Paid to					
		Federal Government accounts	The public			GNP [2]	Budget outlays [3]
			Total	Federal Reserve System [2]	Other		
1954	6.4	1.3	5.2	0.5	4.7	1.42	7.29
1955	6.4	1.2	5.2	.4	4.8	1.36	7.56
1956	6.8	1.3	5.6	.5	5.1	1.35	7.90
1957	7.3	1.4	5.9	.7	5.3	1.37	7.73
1958	7.8	1.4	6.3	.7	5.6	1.43	7.68
1959	7.8	1.4	6.4	.8	5.6	1.35	6.96
1960	9.5	1.5	8.1	1.0	7.1	1.62	8.73
1961	9.3	1.5	7.8	1.0	6.8	1.53	7.96
1962	9.5	1.6	7.9	1.0	6.9	1.44	7.40
1963	10.3	1.6	8.7	1.1	7.6	1.50	7.78
1964	11.0	1.8	9.2	1.2	8.0	1.50	7.80
1965	11.8	2.0	9.8	1.4	8.4	1.49	8.29
1966	12.6	2.1	10.4	1.7	8.7	1.44	7.75
1967	14.2	2.6	11.6	2.0	9.6	1.50	7.99
1968	15.6	3.0	12.6	2.4	10.2	1.52	7.09
1969	17.6	3.5	14.1	2.9	11.2	1.55	7.70
1970	20.0	4.4	15.6	3.5	12.2	1.61	7.99
1971	21.6	5.3	16.3	3.7	12.6	1.58	7.78
1972	22.5	5.8	16.6	3.7	12.9	1.47	7.20
1973	24.8	6.3	18.5	4.3	14.2	1.48	7.54
1974	30.0	7.7	22.4	5.5	16.9	1.62	8.35
1975	33.5	8.8	24.7	6.1	18.6	1.67	7.60
1976	37.7	9.0	28.7	6.3	22.5	1.75	7.89
TQ	8.3	.6	7.6	NA	NA	1.77	8.11
1977	42.6	9.6	33.0	6.8	26.2	1.77	8.24
1978	49.3	10.2	39.2	8.0	31.2	1.88	8.72
1979	60.3	12.1	48.3	9.6	38.6	2.05	9.83
1980	75.2	14.8	60.4	12.5	47.9	2.35	10.48
1981	96.0	17.1	78.9	13.6	65.3	2.76	12.00
1982 estimate	116.0	19.6	96.4	NA	NA	3.13	13.29
1983 estimate	133.2	19.9	113.4	NA	NA	3.30	14.96

NA—Not available.

[1] Total interest significantly exceeds the outlays for the interest function in the budget, because the interest function includes collections of interest as an offset to outlays.

[2] These figures are approximate. For most years they are estimated as the average of calendar year amounts. The 1981 estimate is tentative.

[3] Budget outlays for all years are published in the *Budget*, Part 9, table [illegible].

As a result, interest payments to the public have tended to grow faster than GNP over this entire period. In the late 1950's interest was equal to 1.4% of GNP, whereas by 1971 it had risen to 1.6% and by 1981 it had reached a record high of 2.8%. This percentage is estimated to be higher still in 1982 and 1983, even though it is assumed that market interest rates will decline with the estimated decrease in the rate of inflation.

Interest paid to the public as a percentage of budget outlays does not show the same sustained trend over the period as a whole. In recent years, however, this percentage has also been rising stead-

ily. In 1981 interest paid to the public was 12.0% of budget outlays, which was much higher than the 7.8% just 10 years before and was also above the percentage of any earlier year in the last quarter century. In 1982 and 1983 this percentage is estimated to be even higher, in part because of the slowdown in the rate of growth of other budget outlays. Thus, by either measure the importance of interest on the debt is now relatively high and rising.

Since the end of World War II the composition of the Federal debt has changed. Until a few years ago an increasingly large proportion of marketable securities had a short maturity. One contributing factor was the statutory ceiling of 4¼% that has been maintained since 1918 on the interest rate for Treasury bonds. Long-term market rates exceeded 4¼% after 1965, so after that year the ceiling prevented the Treasury from selling long-term obligations.

This restriction on Treasury borrowing has been relaxed in two ways. One method has been to increase the maximum maturity of notes, which are not subject to the interest rate ceiling. The maximum maturity was raised by law from 5 to 7 years in 1967 and to 10 years in 1976. As of December 31, 1981, the amount of notes outstanding with an original maturity over 5 years was $149.9 billion, of which $71.7 billion had an original maturity over 7 years.

The other method of relaxing the restriction has been to allow limited amounts of bonds to be sold at interest rates above the ceiling. In 1971 the Treasury was allowed by law to issue up to $10 billion of bonds at interest rates above 4¼%. In 1973 those bonds held by Government accounts and the Federal Reserve System were exempted from the interest rate limit, and since 1976 the amount of the exception for other bonds has been raised in seven steps to $70 billion. As of December 31, 1981, $90.4 billion of bonds outstanding had been sold since the change of law in 1971, of which $67.1 billion were held by the public exclusive of the Federal Reserve System. The effective interest rates have ranged from 6.1 to 15.8%.

Notwithstanding the initial relaxations of the interest rate ceiling, the average maturity of privately held, marketable Treasury debt decreased steadily from 4 years at the end of 1967 to about 2½ years at the end of 1976. Since then, however, as the restriction has been relaxed further, the average maturity has gradually lengthened to about 4 years.

Debt Held by Foreign Residents

During most of American history the debt of the Federal Government was held almost entirely by individuals and institutions within the United States. In 1946, just after World War II, the debt

340-700 - 0 - 82 - 2 (Pt. E)

held in foreign official balances and international accounts was about $2 billion, less than 1% of the total debt held by the public. In the following years the debt held by foreign residents tended to grow gradually, and, as shown in table E–5, rose to just over $10.0 billion by the late 1960's. This was still less than 5% of the total Federal debt held by the public. Interest paid to foreign residents was a correspondingly small proportion of the total interest paid on debt held by the public.

Table E–5. FOREIGN HOLDINGS OF FEDERAL DEBT

(In billions of dollars)

Fiscal year	Debt held by the public		Borrowing from the public		Interest on debt held by the public	
	Total	Foreign[1]	Total[2]	Foreign	Total	Foreign[3]
1965	261.6	12.3	4.1	0.3	9.8	0.5
1966	264.7	11.6	3.1	−.7	10.4	.5
1967	267.5	11.4	2.8	−.2	11.6	.6
1968	290.6	10.7	23.1	−.7	12.6	.7
1969	279.5	10.3	−1.0	−.4	14.1	.7
1970	284.9	14.0	3.8	3.8	15.6	.8
1971	304.3	31.8	19.4	17.8	16.3	1.3
1972	323.8	49.2	19.4	17.3	16.6	2.4
1973	343.0	59.4	19.3	10.3	18.5	3.2
1974	346.1	56.8	3.0	−2.6	22.4	4.1
1975	396.9	66.0	50.9	9.2	24.7	4.5
1976	480.3	69.8	82.9	3.8	28.7	4.4
TQ	498.3	74.6	18.0	4.9	7.6	1.2
1977	551.8	95.5	53.5	20.9	33.0	5.0
1978	610.9	121.0	59.1	25.5	39.2	7.9
1979	644.6	125.1	33.6	4.1	48.3	10.7
1980	715.1	126.4	70.5	1.3	60.4	11.9
1981	794.4	135.5	79.3	9.1	78.9	16.0

[1] Estimated by Treasury Department. These estimates exclude agency debt, the holdings of which are believed to be small.
[2] Borrowing from the public is defined as equal to the change in debt held by the public from the beginning of the year to the end, except to the extent that the amount of debt is changed by reclassification. Reclassifications are identified in the footnotes to table E–3.
[3] Estimated by Bureau of Economic Analysis, Department of Commerce. These estimates include small amounts of interest on the debt of Government-sponsored enterprises, which are not part of the Federal Government.

Foreign holdings began to grow much faster starting in 1970. This change arose in part out of decisions by foreign monetary institutions to intervene in foreign exchange markets. Because of the role of the dollar as an international currency, large amounts of the official reserves and other financial assets of foreign nations are held in dollar denominated form. Thus, the exchange market intervention by foreign monetary institutions often acted to increase their official reserves of dollars. U.S. Government securities are the safest and one of the most liquid forms of holding dollar assets. Consequently, as foreign countries acquired more dollar denominated official reserves, they purchased a large amount of U.S. Government securities.

The second principal reason for the growth of foreign holdings has been the massive current account surpluses of some countries, particularly the OPEC nations, since 1974. The counterpart to these surpluses has been the acquisition of financial assets, and the financial assets acquired in the United States have largely taken the form of U.S. Government securities.

The increase in foreign holdings of U.S. Government securities during the past decade has therefore been primarily the product of foreign decisions. By the end of 1981 foreign holdings of Treasury debt had reached $135.5 billion, which was 17% of the total debt held by the public. Because of the rising interest rates, the interest paid on foreign holdings of debt grew much faster than did the foreign holdings themselves. The proportion of total interest paid to foreign residents grew in roughly the same way as did the proportion of the total debt held by foreigners.

In the years before 1970, when debt held by foreign residents was relatively small, borrowing from the public was approximately the same as borrowing from the domestic public. Since 1970, though, borrowing from the domestic public has in some years been quite different from total borrowing. As table E–5 shows, borrowing from foreign residents was nearly all or a major part of total borrowing from the public during 1970–73 and 1977–78, although it was only 8% during the past 3 years, 1979–81. For the period as a whole, borrowing from foreign residents was 24% of borrowing from the public.

Most of the Federal debt held by foreign residents is owned by foreign central banks or other official institutions and is denominated in dollars. Beginning in December 1978, however, the Treasury sold the equivalent of $6.4 billion of securities denominated in Deutsche marks and Swiss francs to residents of Germany and Switzerland, respectively. By selling these securities, the Treasury acquired foreign currencies for use in intervention operations. No securities of this kind have been sold since January 1980, and $4.1 billion of these securities are still outstanding.

Borrowing by Federal Agencies

A few Government agencies are authorized to sell their own debt instruments to the public and to other Government agencies and funds. This agency borrowing is part of the gross Federal debt. The authorization to borrow is budget authority, and the disbursement of borrowed money is an outlay. Borrowing by the off-budget Federal entities is treated in the same manner as any other agency borrowing.

Agency borrowing was shown in total in table E–1 and is shown by agency in table E–6. In all 3 years more debt is repaid than is newly borrowed, and over the period as a whole total agency debt

Table E–6. **AGENCY BORROWING** [1]

(In millions of dollars)

Description	Borrowing or repayment (–) of debt			Debt end 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Borrowing from the public:				
Agriculture: Farmers Home Administration [2]		–31		141
Defense	–97	–137	–110	230
Health and Human Services [2]				5
Housing and Urban Development:				
Federal Housing Administration	–72	–32	–58	172
Housing for elderly or handicapped [2]				52
Government National Mortgage Assoc. [2]	–47	–115		240
Revolving fund (liquidating programs) [2]		–24		44
Transportation: Coast Guard	–*	–*	–*	*
Treasury:				
College housing loans [2]		–7		242
Higher education facilities [2]		–30		61
Veterans Administration [2]	–80			309
Export-Import Bank	–215	–410	–17	18
National Credit Union Central Liquidity Facility		118	109	227
Postal Service				250
Small Business Administration [2]		–81		93
Tennessee Valley Authority				1,725
Total, borrowing from the public	**–511**	**–750**	**–77**	**3,809**
Borrowing from other funds:				
Agriculture: Farmers Home Administration [2]		–28		118
Defense	–28	9	–14	35
Health and Human Services [2]				5
Housing and Urban Development:				
Federal Housing Administration	9	–12	4	163
Housing for elderly or handicapped [2]				45
Government National Mortgage Assoc. [2]		–104		188
Revolving fund (liquidating programs) [2]		–22		34
Treasury:				
College housing loans [2]		–6		209
Higher education facilities [2]		–27		47
Veterans Administration [2]				269
Small Business Administration [2]		–74		63
Total, borrowing from other funds	**–19**	**–264**	**–10**	**1,176**
Total, agency borrowing included in gross Federal debt	**–530**	**–1,014**	**–87**	**4,985**
ADDENDUM				
Borrowing from Federal Financing Bank:				
Export-Import Bank	2,342	2,234	1,965	16,608
National Credit Union Central Liquidity Facility	11	–3	–4	94
Postal Service	–232	433	–87	1,634
Tennessee Valley Authority	1,975	2,100	1,675	14,685
United States Railway Association	–267	–94	–13	108
Total, agency borrowing from Federal Financing Bank	**3,830**	**4,669**	**3,537**	**33,129**

* $500 thousand or less.

[1] Excludes agency borrowing from Treasury.

[2] Certificates of participation in loans issued by the Government National Mortgage Association on behalf of several agencies.

decreases by $1.6 billion or by one-quarter. The agency debt outstanding at the end of 1983 is less than 1% of gross Federal debt.

As shown in the addendum to table E–6, the amount of agency borrowing has been profoundly affected by the Federal Financing Bank (FFB).[6] The FFB was created in December 1973 under the Treasury Department as an off-budget Federal entity and began financial operations in May 1974. Its purposes are to assist and coordinate agency borrowing and guaranteed borrowing and to reduce the cost to the Government of some of its borrowing operations. It has the authority to purchase agency debt and guaranteed obligations and, in turn, to finance these transactions by borrowing from the Treasury. With the approval of the Secretary of the Treasury, the FFB is authorized to borrow from the Treasury without a statutory limit on the amount.[7] Since the FFB can borrow from the Treasury at lower interest rates than other agencies would have to pay in the market, this practice reduces the cost of agency borrowing. The FFB thus serves as a conduit for agency borrowing, and Treasury securities replace the securities of other agencies in the market. Agency borrowing from the FFB is not included in gross Federal debt. It would be triple counting to add together the agency borrowing from the FFB, the FFB borrowing from Treasury, and the Treasury borrowing from the public that was necessary to provide the FFB with funds to lend to the agencies.

As a result of the FFB, several agencies that would otherwise borrow mostly in the market borrowed $3.8 billion from the FFB in 1981 and are estimated to borrow $4.7 billion in 1982 and $3.5 billion in 1983. Because these agencies now borrow almost entirely from the FFB instead of the public, almost no new agency borrowing in the market took place in the last 7 years or is scheduled to take place in the future. The change in agency debt outstanding is therefore determined almost entirely by the repayment of maturing debt and consequently is negative each year. If the FFB had not been created, the agency component of gross Federal debt would be several times greater than it is now, though not by the exact amount that agencies have borrowed from the FFB. The Treasury component would be correspondingly less.

By the end of 1983, $2.0 billion of agency debt, or two-fifths of the total, will be obligations of three of the five agencies listed in table E–6 that in recent years have borrowed almost exclusively from the FFB: the Export-Import Bank, Postal Service, and Tennessee Valley Authority. A total of $2.2 billion, or another two-fifths of

[6] FFB purchases of guaranteed obligations are shown in table E–11.

[7] The FFB also is authorized to have outstanding up to $15 billion of publicly issued debt. Treasury classifies this as public debt rather than agency debt. The FFB borrowed $1.5 billion in 8-month bills from the public in July 1974. All of its other borrowing has been from Treasury, because Treasury can borrow from the public at slightly lower interest rates than FFB would have to pay. No further FFB borrowing from the public is planned.

all agency debt, will consist of certificates of participation in pools of loans issued by the Government National Mortgage Association as trustee on behalf of several agencies, which are identified in table E–6. These certificates have not been issued since 1968. A further $265 million of agency debt will be family housing mortgages assumed by the Department of Defense (and Coast Guard) under programs almost entirely terminated about two decades ago.

The remaining agency debt—$561 million, or 11% of the total—will have been issued by two agencies, the Federal Housing Administration (FHA) and the National Credit Union Central Liquidity Facility. The FHA conducts the only program that has normally continued to borrow from the public. It issues debentures as payment for insurance claims on defaulted loans, so these securities could not be sold to the FFB. The National Credit Union Central Liquidity Facility has borrowed from the FFB in the past but is scheduled to borrow from the public instead beginning during 1982.

The Treasury supplies capital to business-type Government enterprises in return for both capital stock and debt. The debt is shown as "borrowing from Treasury" on the statements of financial condition for enterprises in the *Budget Appendix*. However, the equity and the debt instruments are the same in substance; and it would be double counting to add together the agency borrowing from the Treasury and the Treasury borrowing from the public that was necessary to provide the agencies with this capital. Therefore, agency borrowing from Treasury is excluded from the figures on agency borrowing and debt and from the discussion of this subject both in this special analysis and in all other parts of the budget documents.

Agency Investment in Federal Securities

Trust funds and some public enterprise funds accumulate cash in excess of current requirements in order to meet future claims and demands. Such cash surpluses are invested mostly in Treasury debt and, to a very small extent, in agency debt. Since these are debt transactions, purchases are not counted as budget outlays and redemptions are not counted as budget receipts.

Net investment by trust funds and other Federal agencies rose steadily during the late 1970's from the relatively low level of $4.3 billion in the high unemployment year of 1976 to $19.7 billion in 1979. This was caused primarily by the rise in gross national product, the growing payment from the general fund to the civil service retirement and disability trust fund, and the tax increase resulting from the Social Security Amendments of 1977. In 1980, however, agency investment declined to $10.1 billion, and in 1981, as shown in table E–7, it was $10.3 billion. Agency investment is estimated to rise moderately in 1982 and reach $16.2 billion in 1983.

Table E–7. AGENCY INVESTMENT IN FEDERAL SECURITIES

(In millions of dollars)

Description	Investment or disinvestment (–)			Holdings end of 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Investment in Treasury debt:				
Health and Human Services:				
Federal old-age and survivors insurance trust fund	–322	–10,331	125	12,495
Federal disability insurance trust fund	–4,282	3,525	–5,087	1,831
Federal hospital insurance trust fund	3,535	4,480	1,989	24,610
Federal supplementary medical insurance trust fund	–737	2,083	2,042	7,946
Housing and Urban Development:				
Federal Housing Administration	161	390	1,000	3,582
Government National Mortgage Association	–20	–281	133	1,247
Other	48	121	150	534
Interior: Outer Continental Shelf deposit funds	1,993	2,059	–337	5,804
Labor: Unemployment trust fund	815	–4,116	–300	9,111
Transportation:				
Highway trust fund	–1,674	–679	–345	8,163
Airport and airway trust fund	–711	–881	263	4,093
Treasury:				
Exchange stabilization fund [1]	–414	350	368	3,848
Federal Financing Bank [2]	–78	.....	.....	.....
Veterans Administration:				
National service life insurance trust fund	142	183	266	8,520
Other trust funds	9	28	21	1,150
Veterans reopened insurance fund	14	13	9	490
Federal Deposit Insurance Corp.: Trust fund	1,716	1,810	2,000	15,704
Federal Home Loan Bank Board: FSLIC	–373	–24	150	4,683
Office of Personnel Management:				
Civil Service retirement and disability trust fund	10,477	13,537	13,201	110,469
Other trust funds	458	579	733	6,107
Postal Service fund [2]	–545	–182	–850	950
Railroad Retirement account: Trust fund [3]	–736	1,663	.....	.....
Other Federal funds	165	208	195	1,642
Other trust funds	670	578	506	2,805
Other off-budget Federal entities	.....	*	.....	3
Other deposit funds [4]	2	.....	.....	8
Total, investment in Treasury debt [3]	**10,313**	**15,115**	**16,230**	**235,795**
Investment in agency debt:				
Agriculture: Commodity Credit Corp	–6	–5	.....	.....
Health and Human Services:				
Federal old-age and survivors insurance trust fund	.....	–100	.....	455
Federal hospital insurance trust fund	.....	–50	.....	.....
Housing and Urban Development:				
Federal Housing Administration	–4	.....	.....	169
Government National Mortgage Association	–9	2	–10	175
Veterans Administration: National service life insurance trust fund	.....	.....	.....	135
Federal Home Loan Bank Board: FSLIC	.....	–11	.....	67
Office of Personnel Management: Civil Service retirement and disability trust fund	.....	–100	.....	175
Total, investment in agency debt	**–19**	**–264**	**–10**	**1,176**
Total, investment in Federal debt [3]	**10,294**	**14,851**	**16,220**	**236,971**
MEMORANDUM				
Investment by Federal funds	–440	763	1,994	16,438
Investment by trust funds [3]	9,361	12,210	15,413	213,769
Investment by off-budget Federal entities	–623	–182	–850	953
Investment by deposit funds [4]	1,996	2,059	–337	5,812

* $500 thousand or less.

[1] Investment in 1982 and 1983 is estimated as equal to interest collections.

[2] Off-budget Federal entity.

[3] Investment in 1982 does not include the reclassification of an estimated $3,606 million of debt held by the railroad retirement account as debt held by the public. Under proposed legislation this is scheduled to occur as of September 30, 1982, when the ownership assets of the account is to be transferred to a newly created private rail industry pension corporation.

[4] Only those deposit funds treated as Government accounts.

Total agency holdings of Federal securities will reach an estimated $237.0 billion by the end of 1983. This will comprise 19% of the gross Federal debt. One major trust fund—the civil service retirement and disability trust fund—will account for nearly half of total agency holdings and will have accounted for almost nine-tenths of total agency investment during 1981–83. All the trust funds together will account for 90% of the holdings at the end of 1983. Nearly all of the holdings in Government accounts will be Treasury debt, and the holdings of agency debt will continue to decline by small amounts.

The trust funds financed by the social security tax—old age and survivors insurance (OASI), disability insurance, and hospital insurance—disinvest as a whole each year during 1981–83 for a cumulative decrease in holdings of Government debt of $6.4 billion. The short-term financial problems reflected in this disinvestment have developed in spite of the very large increase in tax receipts generated by the Social Security Amendments of 1977. Recessions and slow economic expansion in recent years raised unemployment, which reduced payrolls and, thereby, payroll tax receipts below what they would otherwise have been; inflation as measured by the consumer price index exceeded the rate of wage increase, so OASI benefit payments, which are fully indexed to changes in the consumer price index, increased faster than the payroll tax receipts used to finance the benefits.

The financial condition of these three funds differs markedly, with OASI having the most severe short-term problem. Because of the divergent conditions, legislation was enacted in 1980 to shift some of the disability insurance tax receipts to OASI during 1981 and 1982. This has not been enough, however, to prevent estimated OASI disinvestment of $10.3 billion during 1982, which will reduce its holdings of Government securities to only $12.4 billion. Legislation was therefore enacted in 1981 to limit certain social security benefits and to permit OASI to borrow from the disability insurance and hospital insurance trust funds through December 1982. Borrowing of $15.1 billion is assumed during this period for the calculations leading to the investment figures in table E–7, and this is estimated to be large enough to finance the full benefit payments of OASI through September 1983. Because of the temporary shift of tax receipts and the borrowing between funds, the respective amounts of investment or disinvestment shown in table E–7 do not reflect the underlying financial conditions of the respective funds. A National Commission on Social Security Reform has been established to address the financial problems of the social security system and to report its recommendations by January 1983.

As stated previously in this special analysis, under proposed legislation an estimated $3.6 billion of debt securities held by the railroad retirement account will be transferred as of September 30, 1982, to a newly created private rail industry pension corporation. This $3.6 billion comes from two sources: the holdings that the railroad retirement account would normally have had at the end of 1982; and the net effect of transferring balances in 1982 equal to the amount of payments that would otherwise have taken place in 1983 between this account and the old age and survivors insurance, disability insurance, and hospital insurance trust funds. The transfer from the railroad retirement account to the private corporation is treated as a reclassification of debt holdings, which does not constitute disinvestment by a trust fund or borrowing from the public. As a result, agency investment in 1982 is an estimated $3.6 billion more than the change in agency holdings of Federal debt.

A comparatively small amount of Federal debt is held by deposit funds. Deposit funds are amounts held by the Federal Government as an agent for others (such as State income taxes withheld from Federal employees' salaries and not yet paid to the States); cash collections awaiting determination as to their final disposition; and other sums held temporarily before being refunded or paid into some other fund. Deposit fund balances are thus not the property of the Federal Government, and changes in balances are not included in the budget totals.

In most cases deposit funds consist of uninvested balances, but some funds are invested in Treasury debt and collect interest on their investments. Since a deposit fund is not Federal property, its holding of Federal debt is normally treated as debt held by the public rather than as debt held by a Government account. However, the investments of three deposit funds are treated as agency investments rather than as debt held by the public. One of these is a relatively small account that has the same characteristics as a trust fund. The other two deposit funds contain receipts from rents and royalties on the Outer Continental Shelf, the title to which is in dispute between the Federal Government and the States. Until title is settled, these amounts are being held in deposit funds. The balances of these funds were first invested in Federal debt in 1980, when they acquired $2.1 billion of Treasury securities. As shown in table E–7, they acquired $2.0 billion more in 1981 and are estimated to hold $5.8 billion at the end of 1983. The Treasury concluded that the Federal claim on these receipts is sufficiently strong that it would be more accurate to classify them as Government holdings of Federal debt rathern than as debt held by the public.

Because increases in uninvested deposit funds increase Treasury cash balances without affecting the Government deficit or debt,

they provide a means of financing the deficit without borrowing from the public (decreases have the opposite effect). Such increases appear as one of the "means of financing other than borrowing" in tables E–2 and E–9. Under the normal rule, with the deposit funds treated as part of the public, deposit fund investment in Federal debt decreases the deposit fund balances available to finance the deficit by means other than borrowing from the public. This is because the debt issued by the Treasury to the deposit fund is itself defined to be an increase in debt held by the public.

However, when deposit fund holdings are treated as holdings by a Government account, the investment of deposit fund balances in Federal debt does not reduce the amount of balances available to finance the deficit by means other than borrowing from the public. The debt issued by Treasury to the deposit fund is an increase in agency investment, and borrowing from the public is therefore unchanged. This transaction does, however, increase the gross Federal debt and the debt subject to statutory limit (as shown in table E–9).

Limitations on Federal Debt

Statutory limitations have normally been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount for each debt issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941. The limit currently applies to the total of:

- almost all public debt issued by the Treasury since September 1917, whether held by the public or by the Government;
- agency debt in the form of participation certificates issued during 1968 under the Participation Sales Act of 1966; and
- other debt issued by Federal agencies that, according to explicit statute, is fully guaranteed as to principal and interest by the United States.

The debt subject to statutory limit[8] includes virtually all Treasury debt. The small amount of Treasury debt not subject to limit is shown in table E–8. It consists almost entirely of currencies no

[8] The statutory debt limit is sometimes called the public debt limit. However, as explained in the text, the limit does not apply to all public debt and does apply to some debt other than public debt.

Table E–8. **DEBT SUBJECT TO STATUTORY LIMIT**

(In millions of dollars)

Descriptions	End of year		
	1981 actual	1982 estimate	1983 estimate
Federal debt held by the public	794,434	913,434	1,021,434
Federal debt held by Government agencies	209,507	220,752	236,971
Total, gross Federal debt	**1,003,941**	**1,134,186**	**1,258,405**
Deduct:			
Treasury debt not subject to limit	607	607	607
Agency debt not subject to the general limit:			
Department of Defense	517	389	265
Export-Import Bank	446	35	18
National Credit Union Central Liquidity Facility		118	227
Postal Service	250	250	250
Tennessee Valley Authority	1,725	1,725	1,725
Participation certificates [1]	1,580	1,030	1,030
Coast Guard	1	1	*
Total, Federal debt not subject to limit	**5,125**	**4,155**	**4,122**
Gross Federal debt subject to statutory limit	998,815	1,130,031	1,254,283
Other debt subject to limit, and adjustments	3	3	3
Total, debt subject to statutory limit	**998,818**	**1,130,034**	**1,254,285**

*$500 thousand or less.
[1] Certificates of participation in loans issued by the Government National Mortgage Association on behalf of several agencies (this excludes the certificates issued during 1968, which are subject to the debt limit).

longer being issued, such as silver certificates and national bank notes, which were generally reclassified as Federal debt some time after being discontinued.

The major part of agency debt is not subject to the general statutory limit. The only categories now included are the debentures issued by the Federal Housing Administration and the participation certificates sold in 1968. These securities comprise about one-quarter of all agency debt. However, most other agency debt is subject to special statutory limits. For example, the Tennessee Valley Authority was first authorized to issue revenue bonds to finance power facilities in 1959. The limit was $750 million. Subsequently, in order to enable TVA to finance additional facilities, Congress raised the limit several times. It is now $30 billion. The Postal Service is limited to $10 billion of securities outstanding and $2 billion of annual borrowing. Proposed appropriation bill limitations would restrict its annual borrowing to $1 billion in 1983 and would require that any borrowing for operating expenses during 1983 be limited to half this amount and repaid within 12 months.

The only other debt subject to the general statutory limit is a very small amount, less than a million dollars, of matured principal and interest. This is not defined as part of gross Federal debt. To derive the debt subject to limit from the gross Federal debt also requires a very small accounting adjustment.

The level of the statutory limit on the Federal debt has frequently been changed by Congress. During the 1960's Congress passed 13 separate acts to raise the limit or to extend the duration of a temporary increase in the limit, and during the 1970's Congress passed 18 such acts. Congress passed three more such acts in 1981. These frequent changes have come about both because the Federal debt has grown steadily and substantially and because of the nature of the debt limit legislation. Since 1971 the statutory debt limit has consisted of a permanent limit of $400 billion plus a temporary increment that was usually scheduled to expire in a year or less. Because the debt subject to limit has been more than $400 billion, new legislation has been required no later than the date when each temporary increment expired. Three times in recent years the temporary increment expired without having been extended, so for a few days on each occasion the Federal debt exceeded the statutory limit. The validity of debt issued prior to the expiration of the temporary ceiling was not affected, but the Treasury Department had to suspend all auctions of new securities and all sales of savings bonds. Such a situation creates uncertainty in the securities market and forces the Treasury to take actions that produce administrative costs.

The statutory debt limit was formerly raised only by normal legislation. In September 1979, however, the method of enacting statutory debt limits was altered by statute (Public Law 96–78). The purpose of the change was for the House of Representatives to vote on the debt limit as a part of the congressional budget process. The first and second concurrent resolutions on the budget (scheduled to be adopted by May 15 and September 15, respectively, for the forthcoming fiscal year) establish targets or ceilings for budget outlays, receipts, and the budget deficit and also recommend an appropriate level for the debt subject to limit. The recommendation as to the appropriate level of debt had not previously had the effect of law, nor had it been part of the direct process whereby the debt limit was established.

However, beginning with the resolutions adopted in calendar year 1980, the budget resolution that is adopted by the Congress has been a part of the process that establishes a debt limit. The vote in the House of Representatives is deemed to have been a vote in favor of a joint resolution setting the statutory limit. The joint resolution is thus deemed to have passed the House and is trans-

mitted to the Senate for further legislative action. Upon final passage, it is sent to the President for his signature. This new procedure relates the decision on the debt limit to the congressional decision on the Federal deficit and the other factors, explained in the following section, that determine the change in the debt subject to limit. It is also intended to ensure that a new increase in the debt limit will be enacted well before the previous increase is scheduled to expire, thereby reducing the uncertainty about extension of the debt limit and eliminating the costs that occur when the level of debt exceeds or is about to exceed the debt limit. The debt limit may still be changed by a separate act as in the past.

This new procedure went into effect after the first budget resolution was passed on June 12, 1980. This resolution, which contained revised totals for 1980 as well as the initial targets for 1981, had two separate provisions for changing the debt limit. In the section revising the second budget resolution for 1980, it declared that the appropriate debt limit from the date of enactment through February 28, 1981, was $925 billion; and in the section on the 1981 totals, it declared that the appropriate debt limit for the fiscal year beginning on October 1, 1980, was $935.1 billion. Both provisions were deemed to have passed the House, as separate joint resolutions (as well as being part of the concurrent resolution on the budget), and were sent to the Senate. The Senate passed the former resolution, and it was signed into law by the President on June 28. Thus, the debt limit was set at $925 billion for the period from June 28, 1980, to February 28, 1981.

The second budget resolution, which passed Congress on November 20, 1980, declared that the appropriate level of the debt limit was $978.6 billion through the end of fiscal year 1981. A separate joint resolution to this effect was deemed to have passed the House, but the Senate did not concur. An increase in the debt limit was needed, and the Senate instead went back to the joint resolution (arising from the first budget resolution) that it had received from the House in June but had not passed. The Senate passed this resolution, which raised the debt limit to $935.1 billion through September 30, 1981, and it was signed into law by the President on December 19, 1980.

A further increase was needed soon thereafter, however. On February 7, 1981, the debt limit was increased by ordinary legislation to $985 billion for the period ending September 30, 1981.

The first budget resolution for 1982 was adopted by the Congress on May 20, 1981. The section revising the totals for 1981 declared that the appropriate debt limit for the rest of the 1981 fiscal year was $999.8 billion; the section on the 1982 totals declared that the appropriate debt limit for the 1982 fiscal year was $1,079.8 billion.

Two joint resolutions were thus deemed to have passed the House. The Senate did not take action until September 29, 1981, when it passed both resolutions. Because of uncertainty over when Congress would act, the Treasury had to briefly postpone one auction of Treasury bills. The President signed the resolutions on September 30, so the debt limit was raised to $999.8 billion for September 30 and $1,079.8 billion for the period from October 1, 1981, through September 30, 1982. However, a further increase will be necessary before the end of the fiscal year in order for the Federal Government to meet its obligations.

The outstanding debt subject to limit is compared in table E–8 with the gross Federal debt and the Federal debt held by the public. The debt subject to limit was $998.8 billion at the end of 1981 and is estimated to rise to $1,254.3 billion by the end of 1983. These amounts are more than twice as large as the permanent limit of $400 billion. As shown in table E–8, the debt subject to limit is much larger than the debt held by the public and is almost as large as the gross Federal debt. The debt subject to limit is so much larger than the debt held by the public because it includes Federal debt held by Government agencies. The small difference between debt subject to limit and gross Federal debt is mostly accounted for by agency debt not subject to the general limitation.

Federal Funds Financing and the Change in Debt Subject to Statutory Limit

The year-to-year change in debt subject to limit, unlike the change in debt held by the public, is not determined principally by the size of the total Government deficit (that is, by the sum of the budget deficit and the deficit of the off-budget Federal entities). The trust fund surplus or deficit, which makes up part of the budget surplus or deficit, has no essential effect on the amount of debt that is subject to limit. This is explained below in a discussion that is more technical than the rest of this special analysis.

The budget consists of two major groups of funds: Federal funds and trust funds.* The trust funds collect certain taxes and other receipts to be used for specified purposes, such as paying social security or unemployment insurance benefits. The Federal funds comprise the rest of the budget. Their resources are derived mainly from taxes and borrowing and are used for the general purposes of the Government. The off-budget Federal entities make up a third group of fiscal operations, analogous to the Federal funds and trust

*Data for Federal funds and trust funds are presented in Special Analysis C, "Funds in the Budget."

funds groups. If the off-budget entities were included in the budget, they would be classified as Federal funds.

When the Federal funds have a deficit, this deficit must generally be financed by borrowing. The borrowing is necessary regardless of whether the trust funds have a surplus. This is because the trust fund surpluses are mostly invested in securities issued by Federal funds, the Federal funds securities held by trust funds are treated as Federal debt, and therefore the trust fund surplus does not reduce the need for the Federal funds to issue debt in order to finance the Federal funds deficit. Federal funds borrowing consists almost exclusively of the Treasury selling debt securities, and these Treasury debt securities are all subject to the statutory limit. The deficits of the off-budget Federal entities are generally financed in the same way as the Federal funds deficit. Therefore, the Federal funds deficit and the deficit of the off-budget Federal entities generally have to be financed by selling debt securities that are subject to the statutory limit; and these securities are sold to either the public, the trust funds, or certain Federal revolving funds or deposit funds.

Table E–9. FEDERAL FUNDS FINANCING AND CHANGE IN DEBT SUBJECT TO STATUTORY LIMIT [1]

(In millions of dollars)

Description	1981 actual	1982 estimate	1983 estimate	1984 estimate	1985 estimate
Federal funds surplus or deficit (–)	–64,749	–111,119	–106,940	–100,832	–103,161
Deficit (–) of off-budget Federal entities	–21,005	–19,689	–15,701	–14,285	–10,950
Total, amount to be financed	**–85,754**	**–130,808**	**–122,641**	**–115,117**	**–114,111**
Means of financing other than borrowing:					
Decrease or increase (–) in cash and monetary assets	–1,668	3,700			
Increase or decrease (–) in liabilities for:					
Checks outstanding, etc.	–3,845	660	334		
Deposit fund balances [2]	2,125	–1,709	–1,621		
Seigniorage on coins	450	553	516	744	797
Total, means of financing other than borrowing	**–2,938**	**3,204**	**–771**	**744**	**797**
Decrease or increase (–) in investments in Federal debt by Federal funds, off-budget entities, and deposit funds [3]	–933	–2,641	–807		
Increase or decrease (–) in Federal funds and off-budget entity debt not subject to limit	–467	–971	–33		
Total, requirements for borrowing subject to debt limit	**–90,092**	**–131,216**	**–124,251**	**–114,373**	**–113,314**
Change in debt subject to limit but not part of Federal debt, and adjustments	3				
Change in debt subject to limit	**90,095**	**131,216**	**124,251**	**114,373**	**113,314**

[1] Several amounts have been assumed to be zero during 1983–85 because they are usually small and cannot be estimated accurately.
[2] Does not include investment in Federal debt securities classified as debt held by the public.
[3] Only those deposit funds treated as Government accounts.

Table E–9 shows in detail the relationship of the change in debt subject to limit to the Federal funds deficit and the deficit of the off-budget Federal entities. The total of these deficits is an amount that has to be financed. Some relatively small portion may be financed by means other than borrowing, such as seigniorage and a decrease in those cash assets held by Federal funds and off-budget Federal entities (however, if the sum of these other means of financing is negative, then these other means comprise a further amount that has to be financed.)[10] A small portion may be financed by the Federal funds or off-budget entities (or certain deposit funds[11]) selling their investments in Federal debt. Another small portion may be financed by these funds or entitites issuing debt that is not subject to the statutory limit. The remainder of the amount to be financed can only be financed by selling debt subject to the statutory limit. This ordinarily comprises most of the total. Thus, the sum of the deficits of the Federal funds and the off-budget Federal entities approximately determines the increase in debt subject to statutory limit.

In 1981, for example, the total Federal funds and off-budget deficit to be financed was $85.8 billion. The means of financing other than borrowing required an additional $2.9 billion of financing by debt subject to limit, because of such reasons as a decrease in cash assets. The Federal funds, the off-budget entities, and certain deposit funds increased their holdings of Federal debt by $0.9 billion, which had to be financed by still further borrowing in the same way as their deficits had to be financed; and they decreased their debt outstanding that was not subject to limit by $0.5 billion, which had to be replaced by an equal amount of debt that was subject to limit. Therefore, a total of $90.1 billion had to be borrowed subject to the debt limit.

The trust fund surplus does not have an explicit effect in table E–9. However, to the extent that trust fund surpluses are used to increase the trust fund holdings of univested cash assets instead of Federal debt securities, the debt subject to limit is reduced. This is because the cash available from the trust funds surplus can be used to finance Federal funds outlays without recording an increase in Federal debt. In table E–9 the increase in uninvested cash assets of the trust funds is recorded as an increase in the liabilities of Federal funds for checks outstanding, etc. (i.e., an increase in the liabilities of Federal funds to trust funds). This increases the Federal funds means of financing other than borrowing, which in turn reduces the requirement for borrowing subject to the statutory

[10] The amounts for means of financing other than borrowing exclude the amounts attributable to trust funds. It is not known how the trust fund open book balances are divided between cash and monetary assets and liabilities for checks outstanding, etc. In table E–9 they are all assumed to be in liabilities for checks outstanding, etc.

[11] Only those deposit funds treated as Government accounts.

limit. The trust fund uninvested cash assets do change from year to year, but they do not usually change a great deal. By law the trust fund surpluses must generally be invested in Federal debt, and during 1972–81 the increase in trust fund holdings of Federal debt equalled 97% of the cumulative trust fund surplus. Consequently, the effect of the trust fund surplus on debt subject to limit is minor.

Since the trust fund holdings of Federal debt are included almost entirely in debt subject to limit, but not in debt held by the public, the amount of debt held by the public is substantially less than the amount of debt subject to limit. Since the trust funds as a group almost always have a surplus, the change in debt held by the public from one year to the next is almost always less than the change in debt subject to limit. As can be calculated from table E–8, during 1982 and 1983 the debt subject to limit is estimated to increase by $255.5 billion, whereas the debt held by the public is estimated to increase by $227.0 billion.

The present analysis helps to demonstrate the difficulty in preventing a continual rise in the Federal debt. The structure of table E–2 showed that the Government would have to borrow from the public even if the budget were exactly balanced, because it would have to finance the deficit of the off-budget Federal entities. The structure of table E–9 shows that the debt subject to statutory limit would almost surely continue to rise even if the total Government deficit were exactly zero and, as a result, the debt held by the public remained constant (that is, even if the budget had a surplus and this surplus was large enough so that the budget and the off-budget entities were together just in balance). In order for the debt subject to limit to remain constant, the Federal funds portion of the budget must (as an approximation) have a surplus and this surplus must be large enough so that the Federal funds and the off-budget entities are together in balance. (The same condition must be met in order for the gross Federal debt to remain constant, since the gross Federal debt is approximately equal to debt subject to limit.) It is more difficult to have a balance in the Federal funds plus the deficit of the off-budget Federal entities than it is to have a balance in the budget plus the off-budget Federal entities, because the trust funds almost always have a surplus.

This can be illustrated by comparing the borrowing from the public in table E–2 with the borrowing subject to the debt limit in table E–9. From 1982 to 1985, borrowing from the public decreases by $33.4 billion, in line with the decline in the total Government deficit. Table E–9 shows, however, that borrowing subject to the debt limit decreases by only $17.9 billion. This difference is primarily because a large part of the reduction in the total Government deficit is accounted for by an $18.7 billion increase in the trust

fund surplus. This reduces borrowing from the public by an equal amount but does not reduce the need to issue debt subject to the statutory limit.

Federally Assisted Borrowing

The effect of the Government on borrowing in the credit market arises not only from its own borrowing to finance Federal operations but also from its assistance to certain borrowing by the public. Federally assisted borrowing is of two principal types: Government-guaranteed borrowing, and borrowing by Government-sponsored enterprises.

Guaranteed borrowing consists of loans for which the Federal Government guarantees (or insures) the payment of the principal and/or interest in whole or in part. Guaranteed loans have diverse characteristics. The loans may be made to individuals, businesses, State and local governments, or foreign governments. The guaranteed obligation may be a loan made by a bank or other institutional lender, it may be a security sold in the capital market, or it may be a security sold to the Federal Financing Bank (FFB). Guaranteed borrowing is another term for guaranteed lending.

Guaranteed loans include most loan asset sales made by Federal agencies. Loan asset sales occur when an agency makes a direct loan and then sells it. A guarantee by the selling agency is usually attached. Loan asset sales are offsets to the outlays of the agency that sells them. Therefore, if the selling agency is in the budget, the budget outlays caused by the direct loans are offset by the sale of the loan assets.

In some cases the agency sells the direct loans themselves, and in other cases the agency sells securities (sometimes called participation certificates or certificates of beneficial ownership) that are backed by loans that the agency continues to hold and service. The certificates of beneficial ownership sold by the Farmers Home Administration (a budget agency) and the Rural Electrification and Telephone revolving fund (an off-budget Federal entity) would be classified as Federal debt according to the recommendations of the President's Commission on Budget Concepts.[12] However, according to statute these certificates are required to be treated as loan assets instead of Federal debt. Since the certificates are guaranteed, they are classified as guaranteed loans. These certificates of beneficial ownership are currently sold almost entirely to the FFB, but some certificates sold by Farmers Home before FFB was established are outstanding and continue to mature. The net amount of sales to the FFB less repayments (i.e., the increase in certificates

[12] *Report of the President's Commission on Budget Concepts* (Washington: U.S. Government Printing Office, 1967), pp. 8, 47-48, and 54-55.

outstanding held by the FFB) is shown below for 1980–83 (in millions of dollars):

	1980 actual	1981 actual	1982 estimate	1983 estimate
Farmers Home Administration	6,881	10,860	5,352	1,149
Rural Electrification and Telephone revolving fund	689	683	623	525

Loan guarantees are designed to allocate economic resources toward particular uses by providing credit at more favorable terms than would otherwise be available in the private market. The major use of loan guarantees is to support housing, but in recent years guarantees have increasingly been used for other purposes. As shown subsequently in table E–11, guaranteed borrowing net of repayments (but including direct loans made by one Federal agency and guaranteed by another) was $49.0 billion in 1981 and is estimated to be $59.7 billion in 1982 and $58.0 billion in 1983. Special Analysis F presents detailed data on guaranteed loans and loan asset sales.

The other type of federally assisted borrowing is borrowing by Government-sponsored enterprises. They were established and chartered by the Federal Government to perform specific credit functions but are now entirely privately owned. The rule governing the budget treatment of these enterprises was established in 1967 in accordance with a recommendation by the President's Commission on Budget Concepts. The Commission, whose report led to the adoption of the unified budget, recommended that the budget exclude those Government-sponsored enterprises that are entirely privately owned.[13] Therefore the transactions of these enterprises are not included within the Federal budget, and their debt is not part of gross Federal debt.

The seven Government-sponsored credit enterprises are essentially financial intermediaries. They borrow in the securities market and lend their borrowed funds for specifically authorized purposes either directly or by purchasing loans originated by the private groups that they were established to assist. The borrowing programs of these enterprises are subject to Federal supervision. In addition, they all consult the Treasury Department, either by law or by custom, in planning their market offerings. The Federal National Mortgage Association and the Federal Home Loan Banks are required to obtain Treasury approval of the terms and timing of specific offerings. The Student Loan Marketing Association (SLMA) borrowed exclusively from the Federal Financing Bank

[13] *Ibid.*, pp. 29–30.

from the time of FFB's establishment until May 1981.[14] Since then SLMA has also sold notes to the public, without a guarantee, and beginning in 1982 plans to finance all of its increases in debt outstanding by borrowing from the public.

Government sponsorship of these enterprises has given them various direct benefits. Their securities are legally eligible to be held for specified uses by federally regulated financial institutions, and they generally have certain tax exemptions. Furthermore, all of these enterprises have a history of successful financial performance. Hence, despite the absence of Federal guarantees, the obligations of these enterprises are sold at interest rates only a little higher than the rates on comparable Treasury issues.

The three enterprises regulated by the Farm Credit Administration—the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks—formerly borrowed on the market separately under their own names. Since January 1979, however, the Farm Credit banks have borrowed solely by issuing consolidated bonds.

The operations of the Government-sponsored enterprises are not subject to the Federal budget review process; and the economic assumptions on which their borrowing estimates are based for 1982–83 are not necessarily the same as the Administration's economic forecast, which is used for the budget. In order to show the borrowing by this sector as a whole from the rest of the market, the total borrowing figures in table E–10 are calculated net of the borrowing by one Government-sponsored enterprise from another. Most of this adjustment is accounted for by the Federal Home Loan Mortgage Corporation borrowing from the Federal Home Loan Banks or repaying its debt to them.

Borrowing by Government-sponsored enterprises has recently risen to a much higher level than in earlier years. Until 1978 the largest amount of borrowing had been $14.9 billion in 1974. Borrowing increased sharply to $24.1 billion in 1978, however, and then grew further to $27.5 billion in 1980. Borrowing in 1981 expanded substantially to $38.7 billion, and the Government-sponsored enterprises estimate that it will increase substantially again to $49.6 billion in 1982 and $53.4 billion in 1983. This will be double the 1980 level.

Sharp shifts in borrowing, such as these, are typical of the Government-sponsored sector as a whole. They generally arise from the operations of the three enterprises that borrow to support the housing mortgage market: the Federal National Mortgage Association (FNMA), the Federal Home Loan Banks (FHLB), and the

[14] SLMA is the only Government-sponsored enterprise whose new securities can be guaranteed by the Government and therefore bought by the FFB. The Secretary of Education has authority to guarantee SLMA securities issued prior to October 1, 1984.

Table E–10. **BORROWING BY GOVERNMENT-SPONSORED ENTERPRISES**

(In millions of dollars)

Description	Borrowing or repayment (–)				Debt outstanding end 1983 estimate
	1980 actual	1981 actual	1982 estimate	1983 estimate	
Housing and Urban Development: Federal National Mortgage Association	6,347	4,342	11,646	11,657	79,991
Farm Credit Administration: [1]					
Banks for cooperatives	1,542	737	1,093	1,136	11,351
Federal intermediate credit banks	3,536	1,921	2,882	3,502	27,666
Federal land banks	7,076	6,819	6,842	7,494	55,411
Federal Home Loan Bank Board:					
Federal home loan banks	6,454	21,029	3,662	4,075	65,365
Federal Home Loan Mortgage Corporation	3,141	1,847	20,948	23,460	67,752
Foundation for Education Assistance: Student Loan Marketing Association	1,070	2,223	1,603	1,543	7,713
Total	**29,165**	**38,917**	**48,676**	**52,867**	**315,249**
Less increase in holdings of debt issued by Government-sponsored enterprises	1,691	230	–882	–500	3,170
Total, borrowing by Government-sponsored enterprises	**27,473**	**38,687**	**49,558**	**53,367**	**312,079**

[1] The debt represented by consolidated bonds is attributed to the respective Farm Credit banks.

Federal Home Loan Mortgage Corporation (FHLMC). The degree of tightness in the mortgage market sometimes varies a good deal, and during periods of high and rising interest rates these enterprises usually increase their lending and borrowing substantially. This condition has led to much of the rise in the level of Government-sponsored borrowing during recent years.

The $11.2 billion increase in sponsored borrowing in 1981 was more than fully accounted for by the $14.6 billion rise in FHLB borrowing. The FHLB increased its advances to member savings institutions, primarily savings and loan associations, which lend most of their funds for new mortgages. The $17.9 billion of higher advances were offset by only $3.3 billion of higher repayments. Except for SLMA, the other Government-sponsored enterprises reduced their borrowing in 1981.

In 1982 the $10.9 increase in estimated borrowing arises from a $30.6 billion increase in mortgage purchases by the FHLMC and FNMA. This more than offsets the $14.7 billion decrease in net advances (new advances less repayments) by the FHLB. This decrease in net advances is due to an increase in repayments; new advances to member savings institutions increase moderately. In 1983 the $3.8 billion increase in Government-sponsored borrowing is led by a $5.2 billion further increase in mortgage purchases by the FHLMC. The other sponsored enterprises, on balance, estimate a small further increase in borrowing.

During 1981–83 nearly three-quarters of the estimated borrowing is done by the three Government-sponsored enterprises that primarily support the mortgage market. They account for a higher percentage of sponsored borrowing in these years than they have on average during the past.

The Federal Government provides a different kind of assistance to State and local government borrowing than it does through loan guarantees and Government-sponsored enterprises. It exempts the interest on State and local debt from Federal income tax. This reduces the interest rate these governments have to pay and encourages them to borrow larger amounts. Tax exemption has also been extended to certain bonds nominally issued by a State or local government to raise funds for private purposes. These private purpose bonds, such as industrial development bonds, now comprise about half of all new long-term, tax-exempt issues. In 1981 the total tax-exempt borrowing estimated in the Federal Reserve flow-of-funds accounts was $25.6 billion, of which $1.1 billion was also guaranteed by the Government. Tax-exempt borrowing is discussed further in Special Analysis F, "Federal Credit Programs," and, from a different perspective, in Special Analysis G, "Tax Expenditures."

Total Federal and Federally Assisted Borrowing

Table E–11 summarizes net Federal and federally assisted borrowing. Federal borrowing from the public is presented in total. Guaranteed borrowing and borrowing by Government-sponsored enterprises are presented both as total amounts for the sector as a whole and as net amounts. The latter were adjusted in order to remove double counting in the aggregation of total Federal and federally assisted borrowing. Double counting would otherwise occur when a Federal agency or a Government-sponsored enterprise bought (or sold) a Federal or federally assisted debt security. This is because borrowing would occur both when the security was initially sold and when the Federal agency or Government-sponsored enterprise borrowed in order to finance its purchase.

Almost one-half of Federal and federally assisted borrowing during 1981–83 is made up of Federal borrowing to finance the budget deficit. Federal borrowing also finances the off-budget deficit, most of which is accounted for by the Federal Financing Bank's purchases of guaranteed obligations. As shown in table E–11, the FFB is estimated to buy over one-quarter of the total increase in guaranteed obligations outstanding during these years. Since the FFB finances these purchases by borrowing from the Treasury, which in turn borrows from the public, these transactions substitute Federal borrowing in the market for guaranteed borrowing. Federal borrowing for all purposes during 1981–83 comprises 55%

Table E–11. **NET BORROWING BY GOVERNMENT, GOVERNMENT-GUARANTEED BORROWERS, AND GOVERNMENT-SPONSORED ENTERPRISES**

(In billions of dollars)

Description	Borrowing or repayment (–)			Debt outstanding end 1983 estimate
	1981 actual	1982 estimate	1983 estimate	
Federal borrowing from the public [1]	79.3	115.4	108.0	1,021.4
Guaranteed borrowing [2]	49.0	59.7	58.0	513.6
Less increase in guaranteed loans held by Federal agencies:				
Federal Financing Bank	21.0	16.2	12.1	111.2
Government National Mortgage Association	*	–.5	–.6	3.1
Net guaranteed borrowing	**28.0**	**44.0**	**46.6**	**399.3**
Borrowing by Government-sponsored enterprises [3]	38.7	49.6	53.4	312.1
Less increase in holdings of Federal debt	–.5	.6	.2	2.7
Less increase in Government-sponsored debt held by Federal agencies:				
Federal Financing Bank	2.0	.7		5.0
Less increase in holdings of guaranteed loans: [4]				
Federal National Mortgage Association	2.2	.9	1.6	42.3
Federal Home Loan Banks	*	*	*	.1
Federal Home Loan Mortgage Corporation	–.1	–.1	–.1	.8
Farm Credit Banks	*	*	*	*
Student Loan Marketing Association	.3	.9	1.5	2.7
Net Government-sponsored borrowing	**34.8**	**46.6**	**50.1**	**258.5**
Total, Federal and federally assisted borrowing	**142.1**	**206.0**	204.7	1,679.2

* $50 million or less.

[1] See table E–1. Borrowing from the public in 1982 excludes the change in debt held by the public due to the proposed legislaiton under which the ownership of an estimated $3.6 billion of debt would be transferred from the railroad retirement account to a newly created private rail industry pension corporation as of September 30, 1982.

[2] This line is the same as "guaranteed loans (net)" in table F–6 of Special Analysis F. To avoid double counting, it is calculated net of guarantees of loan previously guaranteed and guarantees of Federal debt. "Net guaranteed borrowing" in this table is the same as "primary guaranteed loans" in table F–6.

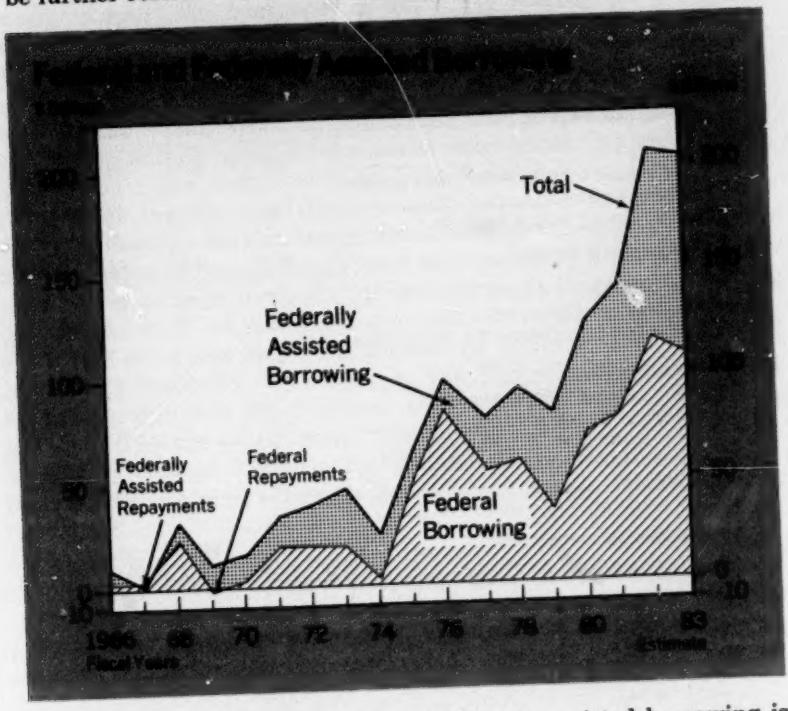
[3] See table E–10.

[4] The increase in holdings of guaranteed loans by the Student Loan Marketing Association is not subtracted out, because these loans are ultimately financed by Federal borrowing (through the FFB) and therefore are classified as direct loans rather than as guaranteed loans.

of total Federal and federally assisted borrowing; Federal debt held by the public at the end of 1983 is 61% of the total Federal and federally assisted debt outstanding.

The following chart depicts the trends in Federal and federally assisted borrowing from 1966 to 1983. The series are volatile, and the fluctuations are dominated by Federal borrowing. These fluctuations are primarily driven by the Federal deficit. Total Federal and federally assisted borrowing fell sharply in 1974 and, to a lesser extent, in 1977 and 1979, because of the large drop in the deficit in these years. Total borrowing rose markedly during recessions, increasing from $24.2 billion in 1974 to $98.1 billion in 1976 and increasing from $80.8 billion in 1979 to $123.5 billion in 1980 and $142.1 billion in 1981. Federal and federally assisted borrowing is estimated to increase still further in 1982, with substantial increases spread across Federal borrowing, guaranteed borrowing, and Government-sponsored borrowing. In 1983, however, all three

types of Federal and federally assisted borrowing are estimated to be further restrained, and the total is expected to level off.



As the chart shows, Federal and federally assisted borrowing is now a great deal higher than a decade ago. Much of the increase parallels the growth in the economy and in the total funds raised by the non-financial sector through borrowing. However, total Federal and federally assisted borrowing has increased as a proportion of the total funds raised. This proportion increased from 17% during 1960–69 to 21% during the first half of the 1970's and 28% during the second half. In 1980 and 1981 the proportion was higher still, reaching 36% and 35% in these 2 years, respectively. Thus Government programs have recently influenced the allocation of funds raised in financial markets more than they did in the preceding years.

BUDGET FINANCING AND OUTSTANDING DEBT

(In millions of dollars)

BUDGET FINANCING

	1981 actual	1982 estimate	1983 estimate
Budget surplus or deficit (−)	−57,932	−98,578	−91,520
Deficit (−), off-budget Federal entities	−21,005	−19,689	−15,701
Total deficit (−)	−78,936	−118,267	−107,221
Means of financing other than borrowing from the public:			
Decrease or increase (−) in cash and other monetary assets	−1,668	3,700	.....
Increase or decrease (−) in liabilities for:			
Checks outstanding, etc.[1]	−1,301	329	326
Deposit fund balances	2,125	−1,709	−1,621
Seigniorage on coins	450	553	516
Total, means of financing other than borrowing from the public	−393	2,873	−779
Total requirements for borrowing from the public	−79,329	−115,394	−108,000
Transfer of debt holdings [2]	.....	−3,606	.....
Change in debt held by the public	**79,329**	**119,000**	**108,000**
Nonbank investors	73,292		
Commercial banks	2,417		
Federal Reserve System	3,620		

OUTSTANDING DEBT, END OF YEAR

	1980 actual			
Gross Federal debt:				
Debt issued by Treasury	907,701	997,855	1,129,114	1,253,420
Debt issued by other agencies	6,616	6,086	5,072	4,985
Total gross Federal debt	914,317	1,003,941	1,134,186	1,258,405
Held by:				
Government agencies	199,212	209,507	220,752	236,971
The public	715,105	794,434	913,434	1,021,434
Federal Reserve System	120,846	124,466		
Others	594,259	669,968		

DEBT SUBJECT TO STATUTORY LIMITATION, END OF YEAR

Debt issued by Treasury	907,701	997,855	1,129,114	1,253,420
Treasury debt not subject to limitation	−608	−607	−607	−607
Agency debt subject to limitation	1,629	1,570	1,527	1,472
Total debt subject to statutory limitation [3]	**908,723**	**998,818**	**1,130,034**	**1,254,285**

[1] Includes military payment certificates, accrued interest (less unamortized discount) on Treasury debt, and as an offsetting change in assets, certain collections in transit.

[2] As of September 30, 1982, $3,606 million of Federal debt held by trust funds are estimated to be reclassified as debt held by the public, because under proposed legislation the ownership of the assets of the railroad retirement account is to be transferred to a newly created private rail industry pension corporation.

[3] The statutory debt limit is permanently established at $400 billion. Public Law 97-49 temporarily increased the statutory debt limit to $1,079.8 billion through September 30, 1982. Legislation is required to change the limitation.